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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 001495

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AF/S FOR BNEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVELLE, D. TEITELBAUM
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MARJORIE COPSON

E.O. 12958: DECL: 12/31/2009
TAGS: [ECON](#) [ETRD](#) [PGOV](#) [ZI](#) [EINV](#)
SUBJECT: CENTRAL BANK GOVERNOR GONO: WOLF IN SHEEP,S
CLOTHING?

Classified By: Ambassador Christopher Dell.
Reason: 1.5 d

Summary

11. (C) We are disturbed that Reserve Bank (RBZ) Governor Gideon Gono's expanding hegemony spells more trouble for Zimbabwe's flagging economy. Although he is an ideological moderate by GOZ and Zanu-PF standards, preaching an uncharacteristic fervor for Western and International Monetary Fund (IMF) reengagement, recent RBZ policies reach far beyond conventional central bank parameters. Most worrisome, it is becoming increasingly difficult for firms to survive without lobbying for and obtaining personal concessions from Gono. His personal corruption is a source of concern for the country's economic future.

Moderate in Tone, Machiavellian in Deed

12. (C) At first blush, Gono seems like an anomaly among Robert Mugabe's officials. Unlike many, Gono has never misrepresented Western sanctions as the cause of the country's economic decline. He courts Western embassies and the IMF. He has personally rehabilitated many out-of-favor white Zimbabweans. (Note: Before Gono took over at the RBZ in December, for example, outspoken Bulawayo accountant Erich Bloch was subject to recurring arbitrary detention; now he heads the RBZ's most important advisory committee. Gono is similarly happy to be seen in the company of Commercial Farmers Union President Douglas Taylor-Freeme and University of Zimbabwe MBA department chair Tony Hawkins) whom the GOZ's Herald often portrayed as enemies of the State.) Gono has called for transferable 99-year leases for land redistribution beneficiaries, the most market-friendly position on land reform of any prominent Zanu-PF spokesman. In private talks, he derides the GOZ's estimate of a 2.4 million ton maize harvest and land-grabs by prominent ministers.

13. (C) However, since Gono took office, the GOZ has imprisoned, marginalized, or exiled nearly every one of his rivals, often through allegations of investment abroad ("externalization of foreign exchange"), a serious crime in Zimbabwe. Authorities have chased into London exile Gono's main contender for the RBZ post - Barbican CEO Mtuli Ncube - as well as the country's most revered indigenous banker) Intermarket CEO Nicolas Vingirai. The GOZ has neutralized the Ministry of Finance's two most powerful policymakers, jailing Minister Chris Kuruneri and offering Permanent Secretary Nick Ncube a largely ceremonial appointment as one

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of three RBZ deputy governors. (Ncube now complains to us about his shrunken workload.) We cannot state for certain what Gono's role has been in the demise of each rival, but find it telling that so many rivals have fallen from power since Gono's rise, that he has taken no action to halt this process and that he has benefited personally and professionally from their demise. With a rotation of cabinet officials overseeing the Finance Ministry (while Kuruneri awaits trial from behind bars) and powerless David Chapfika serving as the new deputy Minister, Gono now controls nearly every economic policy function.

Central Bank Gains New Powers

14. (U) Gono has shifted many responsibilities from the Finance Ministry to the RBZ, such as the registration of investment firms and screening of bank executives. The central bank also now not only reviews/approves qualifications of CEO/CFOs, as the Finance Ministry used to, it requires banks to forward the curriculum vitae of applicants for every managerial position down to department

head, a source of resentment in the banking sector. Gono has also dictated to private banks that they may no longer close for Wednesday afternoons (a Zimbabwean tradition).

15. (U) By establishing the GOZ's forex auctions in January, Gono also established a mechanism for the RBZ to set the country's official exchange rate. Previously, this required a cabinet decision, as when the rate moved from Z\$55 to 824:US\$ in late 2002. However, Gono's commitment to an overvalued rate has dashed initial hopes he would use his new authority to keep the rate at realistic levels. He may be the undisputed master of Zimbabwe's economic policies, but he has been unable or unwilling to change those policies for the better.

Gono Determines Who Gets Loans, Forex

16. (C) Gono's greatest power lies in determining which firms succeed and which fail. He has final say over who can tap attractive low-interest productive sector loans (presently carrying a 50 percent rate, versus approximately 200 percent on the open market) a rent-seekers haven). The RBZ Governor also decides how to allocate the auctions' meager forex. Favored importers buy it at a 28 percent discount to the parallel market, widening their profit margin over competing importers. The key to auction success is often an audience with Gono, something many importers never obtain.

17. (C) Finally, Gono maintains his own business empire, including Jewel Bank and growing media interests. He is publisher of the Financial Gazette, Zimbabwe's main business weekly, which toes the RBZ policy line. He is taking over the daily and Sunday Mirror, a potential rival to the Ministry of Information's daily Herald.

Bottom Line

18. (C) Since he says so many things that contradict customary GOZ rhetoric, Gono makes for a refreshing interlocutor. In fact, he seems to have spellbound many visitors. The local IMF office put out a 2005 forecast of 5 percent growth (published on the IMF website, but since withdrawn) after meeting with Gono earlier this year. However, we do not believe Gono is either taking or advocating the decisions that will lead to an economic turnaround. He continues to expand money supply at an alarming clip (year-to-year M3 is up roughly 400 percent through April, the latest available statistic), while reining in inflation through an enforced official (auction) exchange rate. As a result, exports) the engine of the economy - appear to be dropping (there are no useful official statistics). Foreign direct investment is negligible.

19. (C) Gono has also failed to use his three policy statements to make the case for devaluation (as Finance Minister Simba Makoni did in 2001-02). Nor has he advocated an end to the GOZ's selective "witch-hunts" for investments abroad. This is a crime every Zimbabwean of the middle-class and above has committed, often) as in the case of Finance Minister Kuruneri) facilitated by Gono's Jewel Bank. In the final analysis, Gono appears to see no conflict of interest in the RBZ Governor owning one of the most prominent indigenous commercial banks and much of the financial press. Gono may be a moderate, but presently only by GOZ standards, and his personal corruption poses its own threat to Zimbabwe's economic future.
Dell